

OPEN MEETING ITEM

COMMISSIONERS
BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH



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ARIZONA CORPORATION COMMISSION RECEIVED

DATE: OCTOBER 21, 2014

DOCKET NO.: T-02724A-13-0416

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Opinion and Order on:

TABLE TOP TELEPHONE COMPANY, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

OCTOBER 30, 2014

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

NOVEMBER 5, 2014 AND NOVEMBER 6, 2014

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

OCT 21 2014

DOCKETED BY

JODI JERICH
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347
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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 BOB STUMP - Chairman
4 GARY PIERCE
5 BRENDA BURNS
6 BOB BURNS
7 SUSAN BITTER SMITH

8 IN THE MATTER OF THE APPLICATION OF
9 TABLE TOP TELEPHONE COMPANY, INC. A
10 NEVADA CORPORATION, FOR A HEARING TO
11 DETERMINE THE EARNINGS OF THE
12 COMPANY, THE FAIR VALUE OF THE
13 COMPANY FOR RATEMAKING PURPOSES,
14 AND TO INCREASE RESIDENTIAL RATES AS
15 NECESSARY TO COMPENSATE FOR THE RATE
16 IMPACTS OF THE FCC'S USF/ICC
17 TRANSFORMATION ORDER.

DOCKET NO. T-02724A-13-0416

DECISION NO. _____

OPINION AND ORDER

12 DATE OF HEARING: March 25, 2014
13 PLACE OF HEARING: Phoenix, Arizona
14 ADMINISTRATIVE LAW JUDGE: Jane Rodda
15 APPEARANCES: Mr. Craig A. Marks, CRAIG A. MARKS, PLC,
16 on behalf of Applicant;
17 Ms. Linda Sharp, *pro per*, intervenor (appearing
18 telephonically); and
19 Ms. Maureen A. Scott, Senior Staff Counsel and
20 Mr. Charles O. Hains, Staff Attorney, Legal
Division on behalf of the Utilities Division of the
Arizona Corporation Commission.

21 **BY THE COMMISSION:**

22 * * * * *

23 Having considered the entire record herein and being fully advised in the premises, the
24 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

25 **FINDINGS OF FACT**

26 **Procedural History**

27 1. On December 4, 2013, Table Top Telephone Company, Inc. ("Table Top" or
28 "Company") filed with the Commission pursuant to A.R.S. §40-250 and Arizona Administrative

1 Code ("A.A.C.") R14-2-103 for an increase in its residential rates in order to compensate for the rate
 2 impacts of the Federal Communication Commission's ("FCC") November 18, 2011, *USF/ICC*
 3 *Order*.¹ Table Top requested that the Commission approve a basic local access line rate of the lesser
 4 of \$19.00, or the floor rate to be set by the FCC. In order to avoid the loss of federal funding for high-
 5 cost loop support, Table Top requested that the new rates go into effect by June 1, 2014.²

6 2. On December 17, 2013, Table Top filed a Time Clock Waiver in order to allow
 7 additional time for the Commission to determine procedures for processing the Application.

8 3. In a Special Open Meeting on January 14, 2014, the Commission agreed to adopt a
 9 proposal by the Commission's Utilities Division ("Staff") that would not require Table Top to file all
 10 of the schedules normally required under A.A.C. R14-2-103 for rate applications because of the short
 11 time frame when new rates must be in effect under the FCC directive.³

12 4. On January 6, 2014, Table Top filed copies of the schedules that were inadvertently
 13 omitted from the docketed copy of its Application.

14 5. By Procedural Order dated January 15, 2014, a Procedural Conference was held on
 15 January 22, 2014, to discuss the timing of the hearing in this matter and other procedural matters.
 16 Table Top and Staff appeared through counsel and agreed on a process to govern this matter.

17 6. On January 21, 2014, Table Top filed Revised Schedules that corrected errors.

18 7. By Procedural Order dated January 23, 2014, the matter was set for hearing on March
 19 25, 2014, and other procedural guidelines established.

20 ...

21 ...

22 ¹ FCC 11-161, Connect America Fund, WC Docket No. 10-90 et al., *Report and Order and Further Notice of Proposed*
 23 *Rulemaking*, 26 FCC Rcd 17663 (November 18, 2011) ("*USF/ICC Order*").

24 ² Six rural Arizona incumbent local exchange carriers ("ILECs") filed similar rate case applications around the same time
 25 period in order to comply with the FCC's *USF/ICC Order*. All six were represented by the same legal counsel and several
 26 of the carriers have common ownership. Although separate hearings were held for each entity, the proceedings were
 27 coordinated to promote efficiency. The dockets are: Docket No. T-02063A-13-0411 (Arizona Telephone Company);
 28 Docket No. T-01072A-13-0412 (Southwestern Telephone Company); Docket No. T-01923A-13-0428 (South Central
 Utah Telephone Association, Inc.); Docket No. T-02724A-13-0416 (Table Top Telephone Company, Inc.); Docket No.
 T-01847A-13-0457 (Valley Telephone Cooperative, Inc.); and Docket No. T-02727A-13-0458 (Copper Valley
 Telephone, Inc.). Arizona Telephone Company and Southwestern Telephone Company have the same parent company,
 and Valley Telephone Cooperative, Inc. owns Copper Valley Telephone, Inc.

³ The streamlined filing, as recommended by Staff, included schedules showing: adjusted test year results; adjustments;
 year 2 *USF/ICC Order* impacts; rate base; working capital; and rate design.

1 8. On January 29, 2014, Table Top docketed a "Supplemental Filing" that included a
2 schedule showing the effect on the Company's rate of return if the FCC's Wireline Competition
3 Bureau set \$17.50 as the monthly residential rate floor to be in effect as of June 1, 2014.⁴

4 9. On February 28, 2014, Table Top filed a "Proof of Mailing," attaching an Affidavit of
5 Mailing indicating that the public notice of the hearing in this matter was mailed to its customers on
6 February 4, 2014.

7 10. On March 5, 2014, Linda Sharp, a customer of Table Top, filed a request to intervene,
8 which request was granted on March 17, 2014.

9 11. On March 14, 2014, Staff filed a Request for Suspension of the Procedural Schedule
10 on the grounds that the FCC's Wireline Competition Bureau had not yet determined the rate floor for
11 June 1, 2014, which resulted in uncertainty about the level of the rate floor and the implementation
12 date. In its filing, Staff included information that on March 11, 2014, the Eastern Rural Telecom
13 Association ("ERTA"); the Independent Telephone & Telecommunications Alliance ("ITTA");
14 NTCA – The Rural Broadband Association ("NTCA"); the National Exchange Carrier Association
15 ("NECA"); the United States Telecom Association ("US Telecom"); and WTA-Advocates for Rural
16 Broadband ("WTA") (collectively the "Associations") filed a request with the FCC asking that the
17 effective reporting date for the as yet unannounced 2014 local service floor be extended from July 1,
18 2014, to January 2, 2015.⁵ Staff believed that the FCC would likely seek comment on the
19 Associations' request before it made any determination on the rate floor and whether to extend the
20 date for compliance. Because of these developments, Staff did not believe that it would be
21 productive to proceed with the hearing, and requested a temporary suspension of the procedural
22 schedule until the FCC set both the local service rate floor and gave guidance to carriers and the
23 states on how to proceed, or the FCC ruled on the Associations' request for extension of time.

24 12. On March 17, 2014, Table Top filed a Response to the Staff Request. Because the
25 effect of the pending motion by the Associations before the FCC was unknown, Table Top could
26 support Staff's request only with the understanding that if the FCC required compliance with a new
27

28 ⁴ At that time, the rural ILECs believed that the FCC's new floor rate would be close to \$17.50 per month.

⁵ The FCC's July 1 reporting date relates to the rates in effect on June 1.

1 benchmark by June 1, 2014, or shortly thereafter, that Staff and the Hearing Division would work
2 with the Company to resume the hearings as expeditiously as necessary in order to avoid the loss of
3 federal funds.

4 13. By Procedural Order dated March 18, 2014, Staff's Request was denied in order to
5 provide the Commission with sufficient time to act on the Application if the FCC did not extend the
6 June 1, 2014, implementation date. Staff was directed to file its Staff Report by March 20, 2014.⁶

7 14. On March 20, 2014, Staff filed a Request for an Extension of Time to File Its Staff
8 Report until March 21, 2014. Staff's request was granted by Procedural Order dated March 21, 2014.

9 15. On March 21, 2014, Staff filed its Staff Report, recommending approval of Table
10 Top's request to increase its residential local exchange service rate from \$14.00 to the lesser of
11 \$19.00 or the 2014 local service rate floor established by the FCC. Staff further recommended that
12 the rate increase become effective on the rate floor compliance date, as determined by the FCC.

13 16. Also on March 21, 2014, Table Top filed Notice of New FCC Rate Floor. The
14 Company attached a copy of the FCC Public Notice DA14-384 dated March 20, 2014, in which the
15 FCC announced a rate floor of \$20.46. The FCC did not extend the June 1, 2014, compliance date but
16 asked for comments on the Associations' petition to extend the compliance date.

17 17. The hearing convened as scheduled on March 25, 2014, before a duly authorized
18 Administrative Law Judge, at the Commission's offices in Phoenix, Arizona. Table Top and Staff
19 appeared through counsel; Mathew Boos, General Manager, testified for Table Top;⁷ and Wilfred
20 Shand, Analyst Manager with the Utilities Division, testified for Staff. Ms. Sharp appeared
21 telephonically and testified on her own behalf. No members of the public appeared at the hearing to
22 make public comment.

23 18. The Commission received two comments from Table Top customers in response to the
24 notice of the hearing – both objecting to the increase and one also addressing service quality issues.⁸

25 ...

26 _____
27 ⁶ The original Rate Case Procedural Order had set March 14, 2014, as the date to file the Staff Report.

28 ⁷ Table Top is a subsidiary of Ponderosa Communications, a family-owned corporation. Table Top Hearing Transcript ("Tr.") at 39.

⁸ Table Top responded to the complaint as part of the rate hearing, *see* Tr. at 50-54, and by its April 15, 2014 filing.

1 19. On April 1, 2014, Table Top filed Post-hearing Exhibits, consisting of pro forma
2 results of operations under two different rate scenarios, a bill impact schedule, and the level of
3 employee compensation in the test year.⁹

4 20. On April 15, 2014, Table Top filed a Response to Customer Comment, addressing the
5 complaint raised by one of the public commenters in this matter.

6 21. By Procedural Order dated April 21, 2014, Table Top was requested to supplement the
7 record concerning officer and director compensation.

8 22. On April 23, 2014, the FCC met in open meeting and adopted a *Seventh Order on*
9 *Reconsideration of its USF/ICC Order*.¹⁰ Statements made during the FCC's open meeting indicated
10 that the FCC was going to adopt a lower rate floor than previously announced, waive that portion of
11 its rules that would have required the new rate floor go into effect on June 1, 2014, and phase-in the
12 rates over a number of years. The FCC's open meeting discussion did not, however, provide the
13 specifics of its decision.

14 23. On April 28, 2014, Table Top filed a Revised Post-hearing ExhibitA-6, indicating that
15 the total test year compensation included \$93,344 paid to officers and directors of the Company for
16 daily operational responsibilities as well as officer and director responsibilities allocated to Arizona
17 intrastate operations.

18 24. On April 28, 2014 and May 7, 2014,¹¹ Table Top and Staff participated in two
19 telephonic procedural conferences to discuss the implications of the FCC's actions and whether the
20 Commission needed to approve new rates by June 1, 2014, in order to preserve the current levels of
21 federal high cost loop support ("FHCLS"). The Order adopted at the FCC's April 23, 2014 Open
22 Meeting had not yet been released, and no party to this proceeding was certain of its specific
23 provisions. Staff recommended delaying Commission action on the rate application until the FCC's

24 ⁹ The amount of employee compensation was requested by the intervenor in this matter. Tr. at 5-18.

25 ¹⁰ *Report and Order, Declaratory Ruling, Order, Memorandum and Order, Seventh Order on Reconsideration, and*
26 *Further Notice of Proposed Rulemaking*, WC Docket No. 10-90, WT Docket No. 10-208, WT Docket No. 14-58, WC
Docket No. 07-135, CC Docket No. 01-92 ("*Seventh Reconsideration Order*").

27 ¹¹ The April 28, 2014 Procedural Conference was instigated by the Administrative Law Judge in order to assess from the
28 parties if they had any information whether the FCC had extended the June 1, 2014 implementation date for new rates.
Because of the potentially short time frame for Commission action if the FCC had not extended the deadline, the parties
were invited to participate in the telephonic procedural conference by Email sent on April 25, 2014. The May 7, 2014
telephonic Procedural Conference was scheduled by Procedural Order dated April 28, 2014, which was sent to all parties.

1 actions were known. However, without knowing the details of the forthcoming order, Table Top was
2 reluctant to risk not having new rates in place by June 1, 2014. On or about May 8, 2014, based on
3 additional information received about the FCC's actions, Table Top agreed that the Commission
4 could delay taking action on its rate application until the FCC's Order was released.

5 25. The FCC's *Seventh Reconsideration Order* was released on June 10, 2014. This Order
6 grants a waiver of the provision that would cut FHCLS for carriers if their local residential rates are
7 \$14.00 or higher as of June 1, 2014. In addition, it establishes a phase-in of the floor rate that calls
8 for residential local exchange rates to be at or above \$16.00 by December 1, 2014, at or above \$18.00
9 by June 1, 2016, and at or above \$20.00 by June 1, 2017, in order to preserve current levels of
10 FHCLS.¹²

11 26. By Procedural Order dated July 1, 2014, the parties were directed to provide revised
12 substantive and procedural recommendations given the FCC's *Seventh Reconsideration Order*.

13 27. On July 31, 2014, Table Top and Staff each filed Responses to the July 1, 2014,
14 Procedural Order.

15 28. Table Top recommended that the Commission authorize it to increase its residential
16 rates to \$16.00 effective December 1, 2014, to the lower of \$18.00 or the new national benchmark
17 effective June 1, 2016, and to the lower of \$20.00 or any new national benchmark by June 1, 2017,
18 without re-opening the hearing or requiring a new hearing. Table Top believed that because the
19 notice sent to residential customers concerning its rate request stated that it was requesting new rates
20 up to the lower of \$19.00 or the FCC's approved residential rate floor and also provided that the final
21 rates approved by the Commission may be higher or lower than the rates requested by the Company,
22 that no additional notice is required prior to Commission action on the Application. Table Top
23 recommended that it be required to provide notice of each rate increase before it is implemented.

24 29. Staff recommended that the Commission adopt the following residential access line
25 rates and implementation schedule: (a) \$16.00 effective December 1, 2014; (b) \$18.00 or the 2016
26 rate floor set by the FCC, whichever is lower, effective June 1, 2016; and (c) \$20.00, or the 2017 rate
27

28 ¹² *Seventh Reconsideration Order* at ¶ 80.

1 floor set by the FCC, whichever is lower, on June 1, 2017. Staff believed that because the hearing in
2 this matter discussed various options the FCC might take, there is sufficient evidence in the record to
3 establish that the proposed final \$20.00 rate and the various step increases are just and reasonable.
4 Staff believes that the matter has been adequately noticed to residential customers for a rate up to
5 \$19.00, and that within 30 days of the effective date of any Order in this matter, the Company should
6 be required to re-notice customers informing them of the new rate floor of \$20.00 to be implemented
7 in 2017, and also include the various step increases provided in the FCC's *Seventh Reconsideration*
8 *Order* and their effective dates.¹³ In addition, Staff recommended that before each of the rate phase-
9 ins, the Company should send another notice to customers at least 30 days prior to the effective date
10 of the increase in rates. Finally, Staff recommends that the Company be required to file a full rate
11 case for any future rate increases beyond the \$20.00 floor.

12 30. By Procedural Order dated August 7, 2014, the parties were requested to provide
13 additional information about their positions.

14 31. On August 22, 2014, Table Top filed a Response to the August 7, 2014 Procedural
15 Order, attaching updated schedules reflecting the effect of the FCC's revised directive for the phase-
16 in of local service rates.

17 32. On August 29, 2014, Staff filed its Response to the August 7, 2014 Procedural Order,
18 addressing the reasonableness of the proposed rate phase-in schedule.

19 33. Prior to issuing the Recommended Opinion and Order for this matter it was discovered
20 that the intervenor was inadvertently omitted from the service list for the July 1, 2014 and August 7,
21 2014 Procedural Orders,¹⁴ and was not included on the service lists for the Company's filings on
22 April 1, 2014, April 28, 2014, July 31, 2014 and August 22, 2014.¹⁵ By Procedural Order dated
23 September 29, 2014, Ms. Sharp was afforded an opportunity to file any updated recommendations
24

25 ¹³ Staff recommended that the notice should also explain that if the new FCC surveys in 2016 and 2017 result in rate
26 floors that are lower than the step increases contained in the FCC's *Seventh Reconsideration Order*, the step increases will
also be lower.

27 ¹⁴ These Procedural Orders sought updated recommendations from the parties after the FCC issued its *Seventh*
Reconsideration Order. The record shows that the Intervenor was included on the service list for earlier post-hearing
28 Procedural Orders.

¹⁵ The record shows that Staff included Ms. Sharp on the service list for all of their filings.

1 given the FCC's *Seventh Reconsideration Order*.¹⁶

2 34. No responses to the September 29, 2014 Procedural Order were received.

3 **Background**

4 35. Table Top is an Arizona public service corporation engaged in the business of
5 providing telephone utility service to the public in six Arizona exchanges—Ajo, Inception Ranch,
6 Seligman, Sanders, Bagdad and Aguila.¹⁷ In the test year ended December 31, 2012 (“test year”),
7 Table Top had an average of 2,482 residential lines.¹⁸

8 36. Table Top's current rates were authorized in Decision No. 73875 (May 8, 2013). In
9 that Decision, also based on streamlined procedures, the Commission authorized Table Top to
10 increase its residential local exchange rate from \$13.55 to \$14.00 in order to comply with the FCC's
11 *USF/ICC Order*. In addition to the \$14.00 local exchange rates, Decision No. 73875 authorized a
12 Zone 1 charge of \$0.80 and a Zone 2 charge of \$2.80.¹⁹ Thus, in effect, residents in Zone 1 currently
13 have a local exchange rate of \$14.80 and those in Zone 2 have a rate of \$16.80.²⁰

14 37. The rates in effect prior to Decision No. 73875 were authorized in Decision No. 62840
15 (August 24, 2000). In Decision No. 62840, which was a full rate filing under A.A.C. R14-2-103, the
16 Commission approved a settlement agreement between Table Top, Staff and the Residential Utility
17 Consumer Office which provided for a rate of return on Table Top's Arizona Fair Value Rate Base
18 (“FVRB”) of 7.44 percent.

19 38. Staff confirmed that Table Top is in compliance with Commission Orders.²¹

20 39. Table Top is a rate-of-return ILEC eligible to receive FHCLS.

21 40. On November 18, 2011, the FCC issued the *USF/ICC Order*, which provides for a
22 transition from then-existing federal universal service programs and most intercarrier compensation
23 systems into a new Connect America Fund (“CAF”). In its *USF/ICC Order*, the FCC states that by
24 July 1, 2020, intercarrier compensation rates for rate-of-return companies will be reduced to zero.

25 ¹⁶ Copies of the filings that were not originally mailed to her were included with the Procedural Order, and copies of the
26 documents were mailed and emailed to her addresses of record.

27 ¹⁷ Tr. at 58.

28 ¹⁸ Ex A-1.

¹⁹ The current application eliminates the zone charges. Tr. at 65.

²⁰ Tr. at 34.

²¹ Ex S-1 Staff Report at 3.

1 The CAF provides revenues to carriers as a means to help the transition from a reliance on access
 2 charges and/or reciprocal compensation. Recovery from the CAF will phase out over time at 5
 3 percent annually. In addition to CAF revenues, the *USF/ICC Order* allows ILECs to implement an
 4 Access Recovery Charge ("ARC") on the residential end user's bill. In the first year starting July 1,
 5 2012, ILECs could impose an ARC in the amount of \$0.50 per residential line; in the second year
 6 (July 1, 2013 to June 30, 2014) the ARC could increase to \$1.00 per residential line; and in year
 7 three, the ARC could increase to \$1.50, up to a maximum ARC of \$3.00 in year six.

8 41. The *USF/ICC Order* also adds new rules that reduce FHCLS to carriers by the amount
 9 that their flat-rate residential local service rates fall below a specified local service rate floor. The rate
 10 floor is intended "to ensure that states are contributing to support and advance universal service and
 11 that consumers are not contributing to the Fund to support customers whose rates are below a
 12 reasonable level."²² The rate floor includes state subscriber line charges, state universal service fees,
 13 and mandatory extended area service charges, if any. The *USF/ICC Order* established the rate floor at
 14 \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC's Wireline
 15 Competition Bureau.

16 42. Under the *USF/ICC Order*, to continue receiving FHCLS, Table Top must increase its
 17 residential local rates to the FCC-mandated residential rate floors, or the amount of FHCLS received
 18 will be reduced dollar-for-dollar for each customer by the difference between the existing local rate
 19 and the new rate floor. Pursuant to the FCC's *Seventh Reconsideration Order*, in order to preserve
 20 current FHCLS revenue levels, Table Top must increase its residential local exchange rate to \$16.00
 21 by December 1, 2014, to \$18.00 by June 1, 2016, and to \$20.00 by June 1, 2017.²³

22 Rate Request

23 43. Table Top requests that it be authorized to raise its residential local exchange rates
 24 from \$14.00 to \$16.00 effective December 1, 2014, and thereafter to increase its residential local
 25 exchange rate to the lower of the FCC benchmark rate or \$18.00 as of June 1, 2016, and to the lower
 26

27
 28 ²² *Seventh Reconsideration Order* at ¶ 73.

²³ The FCC may revise the 2016 and 2017 floor rates based on new survey data. *Seventh Reconsideration Order* at ¶ 84.

1 of the FCC benchmark rate or \$20.00 on June 1, 2017.²⁴

2 44. According to the schedules Table Top presented, the Company has an Arizona
3 intrastate FVRB at the end of the test year of \$11,808,512.²⁵

4 45. In the test year, Table Top had total Arizona intrastate operating revenues of
5 \$4,388,717 (including FHCLS of \$2,579,847), and total intrastate operating expenses of \$3,585,940,
6 resulting in operating income of \$802,777, a 6.8 percent rate of return on its FVRB.²⁶

7 46. According to Table Top, if its current residential local exchange rate of \$14.00 is not
8 increased to the FCC floor rate of \$16.00 by December 1, 2014, it would lose \$44,486 of FHCLS,
9 resulting in operating income of \$775,462, a 6.57 percent rate of return on FVRB.²⁷ Based on the test
10 year, increasing Table Top's local rates to \$16.00 would preserve its current FHCLS, and increase its
11 revenues by \$44,486, which would result in operating income of \$830,092, a 7.03 percent rate of
12 return on its Arizona FVRB.²⁸

13 47. According to Table Top, based on the test year, if its residential local exchange rates
14 are increased to \$18.00 as of June 1, 2016, its revenue would increase by \$98,352 over test year
15 revenues (or \$44,486 over revenues if the local rates are increased to \$16.00 on December 1, 2014), it
16 would preserve its FHCLS, which would result in operating income of \$863,166, a 7.31 percent rate
17 of return on its Arizona FVRB.²⁹

18 48. According to Table Top, based on the test year, if its residential local exchange rates
19 are increased to \$20.00 as of June 1, 2017, its revenues would increase \$157,920 over test year
20 revenues (or \$44,486 over revenues if the local rates are increased to \$18.00 on June 1, 2016), it
21 would retain its current FHCLS, and have operating income of \$899,742, a 7.62 percent rate of return
22 on its Arizona FVRB.³⁰

23 ...

24
25 ²⁴ Table Top's Response to Procedural Order filed July 31, 2014. At the hearing, Table Top was requesting to increase its
local exchange rates to the announced FCC mandated floor of \$20.46 effective June 1, 2014. Tr. at 28.

26 ²⁵ Ex A-1.

27 ²⁶ Ex A-1.

28 ²⁷ Table Top's August 22, 2014 Response.

29 ²⁸ *Id.*

30 ²⁹ *Id.*

³⁰ *Id.*

1 **Intervenor Concerns**

2 49. At the hearing, Ms. Sharp argued that Table Top does not need the requested rate
3 increase because its revenues and profits are sufficient for the Company to provide adequate
4 service.³¹ Mr. Sharp, who owns property served by the Ajo exchange, was also concerned that the
5 economic recovery had not reached the Ajo area, and residents could not afford a rate increase in the
6 amount requested.³²

7 50. Ms. Sharp questioned whether the Company or Staff had given sufficient
8 consideration to the effect on the rate payers and whether the other parties had done an analysis of
9 the Company's need for the full amount of FHCLS.³³

10 **Staff Recommendations**

11 51. Staff notes that because the Company's filing was based on streamlined requirements
12 to meet the FCC's deadline for federal USF funding, it does not include rate adjustments typical of a
13 revenue requirement analysis.³⁴ Given the particular circumstances of this case, Staff accepted Table
14 Top's financial results as presented, and did not audit the numbers reported by the Company.³⁵

15 52. Based on the FCC's *Seventh Reconsideration Order*, Staff recommends that Table
16 Top's residential local exchange rates be set at \$16.00 effective December 1, 2014; \$18.00 or the
17 2016 rate floor set by the FCC, whichever is lower, effective June 1, 2016; and \$20.00, or the 2017
18 rate floor set by the FCC, whichever is lower, on June 1, 2017.³⁶

19 53. In addition, Staff recommends that within 30 days of the effective date of this Order,
20 the Company should be required to notify its customers of the new rate floor of \$20.00 to be
21 implemented in 2017 and of the preceding step increases and their effective dates.³⁷ Staff further
22 recommends that the Company file a full rate case under A.A.C. R14-2-103 for any future rate
23 increase beyond the \$20.00 rate floor currently mandated for June 1, 2017.³⁸

24 ³¹ Tr. at 21-23. At that time, Table Top was requesting a residential local exchange rate of \$20.46 to be implemented June
25 1, 2014, which was a \$6.46 increase in the basic current residential rate.

26 ³² Tr. at 72-76.

27 ³³ Tr. at 90-92.

28 ³⁴ Ex S-1 Staff Report at 4.

³⁵ *Id.* at 3, 4, and 5.

³⁶ Staff's July 31, 2014 Response and Staff's August 29, 2014 Response.

³⁷ *Id.*

³⁸ Staff's July 31, 2014 Response.

1 54. At the time of the hearing, Staff argued that the Company's then-recommended rate
2 of \$19.00 as of June 1, 2014, was just, fair and reasonable, and necessary because:

3 (a) The increase is necessitated by the FCC's November 18, 2011 *USF/ICC Order*;

4 (b) The increase is necessary to preserve the entirety of the Federal USF funds that
5 may flow to Table Top pursuant to the FCC's rules;

6 (c) The increase will minimize/reduce the amount of future rate increases; and

7 (d) The increase will allow Table Top to receive matching funds from the Federal
8 USF.³⁹

9 55. Staff states that if the Company does not adjust its local service rates to the FCC rate
10 floors on the dates indicated, it will lose FHCLS on a dollar-for-dollar basis which would lower the
11 Company's rate of return. Staff notes that the Company claims that not increasing local service rates
12 to the FCC's benchmark rates would result in reducing the rate of return to 6.57 percent on December
13 1, 2014, to 6.29 percent on June 1, 2016, and to 5.98 percent on June 1, 2017.⁴⁰

14 56. Based on the FCC's directives, the relatively small impact the increase has on Table
15 Top's total revenues, the diminished rates of return that would result from the loss of FHCLS, Staff
16 believes that increasing Table Top's rates to the FCC's minimum benchmark floors between
17 December 1, 2014 and June 1, 2017, results in fair and reasonable rates.⁴¹

18 57. Staff states that its recommendation in these unique circumstances should not be
19 viewed as precedent for the processing of future rate case applications.⁴²

20 Conclusion

21 58. We concur with the parties that the March 2014 hearing on the Application anticipated
22 and discussed a number of different scenarios that the FCC might take concerning its benchmark
23 floor rate and considered rates that ranged between \$14.00 and \$20.46, and that with the parties'

24
25 ³⁹ Ex S-1 Staff Report at 5-6; Tr. at 48-49.

26 ⁴⁰ Staff's August 29, 2014 Response at 3.

27 ⁴¹ Staff's August 29, 2014 Response. *See also* Ex S-1 Staff Report at 5 where Staff determined that a rate floor of \$19.00
(the initial request) would provide additional annual revenue of \$128.136, which would increase the Company's return on
its FVRB from 6.80 percent to 7.46 percent. Staff opined that compared to the Company's total revenues, any impact on
28 revenues from such rate increase would be small and any impact on the return on Table Top's FVRB would be *de minimus*.

⁴² Ex S-1 Staff Report at 6.

1 updated recommendations, there is no need to re-open the hearing in this matter in order to make an
2 informed decision based on substantive evidence.

3 59. Under the particular circumstances of this proceeding, although we have considered
4 FVRB, a rate of return analysis alone is not helpful in setting rates for Table Top.

5 60. At the current \$14.00 local exchange rate, a typical basic residential phone bill is
6 \$25.09 per month.⁴³ If local residential rates are increased to \$16.00, the basic bill would increase by
7 \$2.21 to \$27.30; if local rates were increased to \$18.00, the current typical basic residential bill
8 would increase by \$4.41 to \$29.50; and if local rates are increased to \$20.00, the current typical basic
9 residential bill would increase by \$6.60 to \$31.69.⁴⁴

10 61. Neither Staff nor the Company submitted an analysis of the effect of losing FHCLS on
11 Table Top's operations. However, the record shows that the loss of FHCLS that would occur if Table
12 Top's residential rates are not increased to the national average as determined by the FCC, will
13 reduce Table Top's operating income. The phase-in of rates addresses one of the concerns expressed
14 by the Intervenor -- that the immediate bill impact was too great for rate payers. The phase-in does
15 not address Ms. Sharp's concerns that there has been no analysis of whether Table Top needs the
16 entire amount of FHCLS.⁴⁵ According to the evidence presented, an increase in residential local
17 exchange rates up to \$20.00 would result in a 7.62 percent rate of return based on Table Top's test
18 year results. All pro forma rates of return prior to the last phased-in increase in 2017, indicate a rate
19 of return that would be lower than the 7.44 percent rate of return authorized by the Commission in the
20 last full rate proceeding in 2000.⁴⁶ There has been no new cost of capital analysis or audit of the
21 Company's financials in this proceeding, and Table Top has not met its burden of proving that the
22 rate increase requested for June 1, 2017 would result in fair and reasonable rates. We do not find that
23 it is equitable or in the public interest to approve rates that would produce a return greater than
24 approved in the last full rate proceeding. Because the evidence indicates that the proposed increase

25 ⁴³ Table Top's August 22, 2014 Response; includes taxes. The current rates on the bill analysis do not include zone
26 charges. Under the Company's proposal, there would no longer be zone charges. Residents in Zone 2 would see a small
decrease, from \$16.80 to \$16.00, in their local exchange rates as of December 1, 2014.

27 ⁴⁴ *Id.*

28 ⁴⁵ Unlike the other five rural ILECs that have filed similar rate requests, by its own schedules, Table Top is not suffering
from an operating loss or only very small positive operating income.

⁴⁶ See Decision No. 62840.

1 projected for June 1, 2017, would cause the Company to earn more than the 7.44 percent rate of
 2 return authorized in the last full rate case, we do not authorize the last step of the proposed rate
 3 increase. We authorize the increase in residential local exchange rates to \$16.00 on December 1,
 4 2014, and the increase to the lower of \$18.00 or the FCC benchmark floor on June 1, 2016, because
 5 the evidence indicates that the Company would not be over-earning at these rates. Table Top must
 6 file a rate case under A.C.C. R14-2-103 to implement any increase in rates beyond the increase in
 7 local exchange rates of the lower \$18.00 or the FCC's benchmark floor to be effective June 1, 2016.⁴⁷

8 62. There is adequate time for the Company to file a rate case to have new rates in effect
 9 by June 1, 2017. The Company should file any future rate case in full compliance with the rules so
 10 that the new rates can be authorized by the Company's chosen implementation date.

11 63. We find that it is reasonable to require the Company to file revised tariffs showing the
 12 rates authorized herein. Additionally, we find that Staff's recommendations concerning providing
 13 notice of the rates approved herein and their effective dates to be reasonable. Thus, we will direct
 14 Table Top to mail notice of the rate increases approved herein to its customers within thirty days of
 15 the effective date of this Order in a form approved by Staff. In addition, Table Top shall re-notify its
 16 customers by mail of the rates to become effective June 1, 2016, at least thirty days in advance of
 17 their implementation date.

18 CONCLUSIONS OF LAW

19 1. Table Top is a public service corporation within the meaning of Article 15 of the
 20 Arizona Constitution and A.R.S. §§40-250 and 40-251.

21 2. The Commission has jurisdiction over the Company and over the subject matter of this
 22 proceeding.

23 3. The Company provided notice of this proceeding in accordance with law.

24 4. Table Top's FVRB is \$11,808,512.

25 5. Under the particular circumstances of this proceeding, in order to assure continued
 26

27 ⁴⁷ Based on the Company's schedules, we estimate that if its residential rates are not increased to \$20.00 in June 2017
 28 (after an increase to \$18 in June 2016), Table Top would lose annual FHCLS of \$44,486, which after the effect of taxes,
 would lower its net operating income by \$27,315, and result in net operating income of \$835,851, a rate of return of 7.07
 percent, which is higher than its test year rate of return of 6.80 percent. See Table Top's August 22, 2014 Response.

1 FHCLS for Table Top's services, it is appropriate to increase Table Top's rates for residential local
2 service from the currently tariffed rate of \$14.00 to the FCC residential local exchange rate floor of
3 \$16.00 and eliminate the current zone charges, and thereafter to increase Table Top's rates for
4 residential local exchange service effective June 1, 2016, to the lower of \$18.00 or the FCC's
5 benchmark floor rate.

6 6. The rates and charges authorized herein are just and reasonable and promote the public
7 interest.

8 7. The Company should file revised tariffs showing the rates authorized herein.

9 **ORDER**

10 IT IS THEREFORE ORDERED that Table Top Telephone Company, Inc. is authorized to
11 increase its residential local exchange rates to \$16.00 effective for billings on or after December 1,
12 2014, the implementation date for the new local exchange service rate floor as established by the
13 FCC.

14 IT IS FURTHER ORDERED that Table Top Telephone Company, Inc. is authorized to
15 increase its residential local exchange rates to the lower of \$18.00 or the FCC's benchmark rate floor
16 effective June 1, 2016.

17 IT IS FURTHER ORDERED that Table Top Telephone Company, Inc.'s request to increase
18 its residential local exchange rates to the lower of \$20.00 or the FCC's benchmark floor to be
19 effective June 1, 2017, is denied.

20 IT IS FURTHER ORDERED that Table Top Telephone Company, Inc. shall, by October 31,
21 2014, file revised schedules of rates and charges consistent with the Findings of Fact and Conclusions
22 of Law contained herein.

23 IT IS FURTHER ORDERED that Table Top Telephone Company, Inc. shall notify its
24 affected customers of the rates approved herein and their implementation dates in a form approved by
25 Staff either as an insert in its next regular bill, or as a separate mailing to be completed within thirty
26 (30) days of the effective date of this Decision.

27 IT IS FURTHER ORDERED that Table Top Telephone Company, Inc. shall mail notice of
28 the approved rate increases to its residential customers at least thirty days prior to the implementation

1 of the new residential rates on June 1, 2016.

2 IT IS FURTHER ORDERED that any increases to Table Top Telephone Company, Inc.'s
3 rates and charges beyond those approved herein shall be supported by a rate case filing pursuant to
4 the requirements of A.A.C. R14-2-103.

5 IT IS FURTHER ORDERED that Table Top Telephone Company, Inc. may file a full rate
6 case under A.A.C. R14-2-103 at any time.

7 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

8 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

9

10

11 CHAIRMAN _____ COMMISSIONER _____

12

13 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____

14

15 IN WITNESS WHEREOF, I, JODI JERICH, Executive
16 Director of the Arizona Corporation Commission, have
17 hereunto set my hand and caused the official seal of the
18 Commission to be affixed at the Capitol, in the City of Phoenix,
19 this _____ day of _____ 2014.

20

21 JODI JERICH
22 EXECUTIVE DIRECTOR

23

24 DISSENT _____

25

26 DISSENT _____
27 JR:ru

28

1 SERVICE LIST FOR: TABLE TOP TELEPHONE COMPANY, INC.

2 DOCKET NO.: T-02724A-13-0416

3

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